

Liberals play it safe; First federal budget since pact with New Democrats promises lower de cit

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Body

The 2022 federal budget is perhaps the most conservative one the Trudeau Liberals have produced, and yet it will survive with the support of New Democrats..

Deputy Prime Minister and Finance Minister Chrystia Freeland framed her second budget as a multibillion-dollar package to face global uncertainties still fuelled by the pandemic and war in Europe, but anchored in what she said is Canada's strong economic recovery and her own commitment to fiscal prudence.

There's less red ink in the books now and in years to come but there's more social and defence spending, courtesy of a whopping \$90-billion windfall from government revenues higher than projected just last December, pouring in now and over the next five years.

The Liberals are taking that windfall - due in part to lapsing COVID-19 emergency aid programs and also the result of inflation and high commodity prices for oil, grains and fertilizer which are padding government tax coffers - to slam billions of dollars into doubling the country's housing supply over 10 years, to encourage a speedier "green" economic transition, to make down payments on their pact with the NDP, and to shore up the government's fiscal credentials as a responsible manager of the public purse.

There's no more talk of "build back better," but lots of talk of building affordable single-family homes, building a new dental-care program, building up Canada's military capabilities and continental defence, building investor confidence, and building up the Liberals' fiscal and economic credibility.

NDP Leader Jagmeet Singh told reporters the budget is "sufficient" for his support, although he sharply criticized what he called a lack of effective measures to tackle climate change and eliminate fossil fuel subsidies.

Interim Conservative Leader Candice Bergen called it "an NDP budget delivered by an NDP-Liberal government" that failed to rein in spending to "control inflation," failed to deliver tax breaks for Canadians facing "the high cost of everything," and, she said, would not increase housing supply or boost economic growth. "It is an irresponsible budget," she said, declaring the Conservatives would vote against it.

In presenting her first budget since last year's election, and her second since taking on the finance portfolio in August 2020, Freeland boasted that despite the pandemic and global risks in the face of war in Ukraine, "our economy has not just recovered, it is booming."

At the same time, "our pandemic deficits are and must continue to be reduced. The extraordinary debts we incurred to keep Canadians safe and solvent must be paid down. This is our fiscal anchor - a line we shall not cross," she said. "Canada has a proud tradition of fiscal responsibility. It is my duty to maintain it - and I will."

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The 280-page document carries the prosaic title "A plan to grow our economy and make life more affordable." It rhymed off statistics showing how Canada fared compared to its G7 peers, with the fastest pandemic job recovery, the second-strongest pace of growth, the lowest net debt-to-GDP ratio and the second-lowest deficit in relation to GDP.

Kevin Page, a former parliamentary budget officer and now head of the Institute of Fiscal Studies and Democracy at the University of Ottawa, called it a "modest budget for the really uncertain times, knowing that we can be back three months, six months from now, probably by default, with a very different vision of where things are headed.

"This probably looks more of a Conservative budget than a Liberal budget. There's elements of obviously both."

Freeland's plan provides \$10.2 billion to tackle the housing crisis, \$5.3 billion to create a children's dental-care program, establishes two new agencies (one focused on "innovation and investment" and the other to manage a new "Canada Growth Fund" to lever private sector investment and government funds for climate action) and grows Canada's military spending by \$8 billion over the next five years.

It's at once less ambitious than the Liberal platform in the eyes of environmentalists and those who'd hoped for greater health-care spending, and more blue-sky planning when it comes to the professed desire to kick-start economic growth and productivity. Many details are lacking about how the new agencies will work.

There are no cuts to any programs, but there is a promise to review government spending down the road, with an eye to saving \$6 billion over five years.

Overall, the budget projects a deficit of \$52.8 billion for the new fiscal year. That's less than half the \$113.8-billion deficit that Ottawa has posted for 2021-22 and is projected to decline over the next five years to \$8.4 billion by 2026-27.

To increase revenues, the government will introduce a new tax on financial institutions, which it expects to bring in \$16.5 billion. However the new surtax at 1.5 per cent on big banks and insurance companies is half the level the Liberals promised in the last federal election campaign. The budget also serves notice on high-income earners, saying they're not paying enough income tax and the government will review to decide by next year if a wealth tax - that the NDP has long demanded - is warranted.

In all, new spending is pegged at \$56.6 billion but after accounting for increased government revenues, the new spending will total \$31.1 billion.

The NDP demand for dental care for low-income families will cost \$5.3 billion over five years, starting this fiscal year, and \$1.7 billion ongoing.

In addition to outlays for housing and dental care, the budget includes new spending for climate action of \$12.4 billion and more than \$8 billion for national defence.

That includes \$500 million to send more military aid to Ukraine, and \$875 million for boosting Canada's cyberdefences. But in the face of pressures on all NATO allies to up their defence spending, Ottawa has decided to launch a major defence policy review while setting aside \$6 billion for NORAD modernization and Canada's commitments to NATO.

After five years, however, Canada will still not hit NATO's defence spending target of two per cent of GDP, admitted a senior government official who said it would land at a more modest 1.5 per cent, up from 1.36 per cent now.

Bloc Québécois Leader Yves-Francois Blanchet called it an "arrogant" budget that further centralizes decisions in Ottawa and offers "no answer to the crises" in health care, climate and the cost of living.

Economist Armine Yalnizyan, an Atkinson fellow on the future of work, said with this budget, Freeland is pitching to "Bay Street and corporate Canada" - business leaders who made a lot of "noise" about budget deficits.

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Yalnizyan said the budget has two huge gaps: It fails to address the crisis in health care and long-term care with meaningful measures and money to entice more doctors, nurses and personal care workers, and it fails to provide ways to allow many of the skilled immigrant workers who already live in Canada to enter the workforce in the areas where they are trained but not yet credentialed here.

With files from Alex Ballingall

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